



USFRCS MEMORANDUM NO. 59

TO: Arizona Charter School Administrators
Administrators of School Districts Sponsoring Charter Schools

FROM: Magdalene D. Haggerty, Office of the Auditor General
Vicki G. Salazar, Arizona Department of Education

DATE: August 8, 2005

SUBJECT: Extracurricular Activities Fees Tax Credit (Supersedes USFRCS Memorandum No. 49)

Arizona Revised Statutes (A.R.S.) §43-1089.01 allows taxpayers a credit for the amount of any fees or cash contributions made to a public school in the State for the support of extracurricular activities or character education programs. Taxpayers who file a tax return as single or head of household are eligible to receive a tax credit of up to \$200. Laws 2005, Ch. 334, increased the tax credit for married couples filing a joint tax return to a maximum of \$300 in taxable year 2005, and \$400 in taxable year 2006 and thereafter. If married taxpayers file separate returns, each spouse can claim one-half of the tax credit that would have been allowed on a joint return.

Extracurricular activities are defined in A.R.S. §15-342(24) as optional, noncredit, educational, or recreational activities which supplement the education program of the school, whether offered before, during, or after regular school hours. Extracurricular activities that are eligible for the tax credit are those school-sponsored activities that require enrolled students to pay a fee in order to participate, including fees for band uniforms, equipment or uniforms for varsity athletic activities, scientific laboratory materials, and in-state or out-of-state trips that are solely for competitive events. However, senior trips or events that are recreational, amusement, or tourist activities are specifically excluded from eligibility for the tax credit. Character education programs, as described in A.R.S. §15-719, include instructing students in the definition and application of at least six of the following character traits: truthfulness, responsibility, compassion, diligence, sincerity, trustworthiness, respect, attentiveness, obedience, orderliness, forgiveness, virtue, fairness, caring, citizenship, and integrity.

If schools receive contributions that are not designated for a specific purpose, the site council for the school must determine how the contributions should be used at the school site. If a school does not have a site council, the principal, director, or chief administrator of the school must determine how the contributions that are not designated for a specific purpose should be used at the school site.

Schools exempt from all or part of the *Uniform System of Financial Records for Arizona Charter Schools* (USFRCS) must follow the procedures in this memorandum to comply with State statutes and the Arizona Department of Revenue (ADOR) regulations. Schools exempt from the USFRCS Chart of Accounts may use account codes other than those prescribed below; however, alternative account code structures must provide the same level of detail.

Schools may record extracurricular activities fees tax credit monies in the Schoolwide Project or may establish a separate project titled "Extracurricular Activities Fees Tax Credit." This separate project should be numbered in the 1500-1599 Other Special Projects series as outlined in the USFRCS Chart of Accounts. Revenue object code 1790—Extracurricular Activities Fees Tax Credit from the Chart should be used when recording these monies as revenues. Schools should maintain detailed accounting records to document that monies received are used for the school and purpose intended by the taxpayer, or the purpose determined by the site council (as indicated above). The program, function, and unit elements in the Chart may be used to provide such detail.

Schools should prepare and issue a prenumbered, numerically controlled cash receipt form to each fee payor or contributor. The form should include the school number, school name, taxpayer name and address, amount received, date, and description of the activity for which the fee was paid.

Reporting Requirement

Laws 2005, Ch. 272, reduced the reporting requirements for charter schools. Schools are required to file a report with ADOR by February 28 of each year, on a form prescribed by ADOR, that includes the following information:

- The total number and dollar amount of fees and contributions received during the previous calendar year.
- The total dollar amount of fees and contributions spent by the school during the previous calendar year.

A revised form (currently form number ADOR 05-5432) should be available on ADOR's Web site after December 31, 2005. The report should be mailed to ADOR at:

Office of Economic Research and Analysis
Arizona Department of Revenue
1600 West Monroe 9th Floor
Phoenix, Arizona 85007-2650

If you have questions or need assistance, please call the Office of the Auditor General, Accounting Services Division at (602) 553-0333, or the Arizona Department of Education, School Finance Operations Unit at (602) 542-5695.

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